

2005-2007 IT PLAN Summary - Agency Budget Request

00127 OFFICE OF STATE TAX COMMISSIONER

2005B0100127

AGENCY IT PLAN CONTACT DATA

Catherine A Forsch - Director of Operations
cforsch@state.nd.us
701.328.2783

AGENCY IT OVERVIEW

A. Agency Mission Statement:

"The mission of the Office of State Tax Commissioner is to fairly and effectively administer the tax laws of North Dakota."

B. Agency Programs and Services:

As the tax collection agency for the State, the Office of State Tax Commissioner (Tax Department) administers a variety of tax types. Each tax type is unique and must follow mandates set by federal and state government. The Tax Department is comprised of the following six divisions:

1. The Commissioner's Division provides general administration of all tax types and develops and maintains an efficient system of staff support in general administration, management and planning, human resources, research, and communications.
2. The Legal Division represents the Office of State Tax Commissioner and the State Board of Equalization in the litigation of civil tax cases; provides legal advice to the Office of State Tax Commissioner staff, the State Board of Equalization and local officials in matters of tax law; and assists state's attorneys in the prosecution of criminal complaints initiated by the Office of State Tax Commissioner for violation of tax laws.
3. The Fiscal Management Division provides support in budgeting, accounting, and collection of delinquent taxes. This division administers the revenue and expenditure accounting functions, prepares the budget request for legislative appropriation, maintains the internal budget and oversees the collection of delinquent taxes.
4. The Income, Sales, and Special Taxes Division administers and ensures compliance with the state's tax laws for 29 of the 34 state tax types and the local option taxes for 100 cities and 1 county. Administration includes processing of tax returns, analysis, data entry, tax return error correction, and discovery, audit and collection of tax liabilities.
5. The Property Tax Division supervises and assists county and other local officials in the administration and equalization of the assessment and taxation of property. The division administers 5 of the 34 state tax types as well as the Senior Citizens Property Tax Credit and the Renter Refund Program; and provides support to the State Board of Equalization in making tentative valuations of utility, railroad, and airline property for property tax purposes.
6. The Operations Division consists of five sections - Tax Processing, Information Services, Mail Room, Central Records, and Purchasing. This division provides services to the Tax Department for incoming and outgoing mail; scanning and electronic and paper document retention and management; data entry / verification for all tax information; security, network administration, internal programming, and business process reengineering; purchasing and contract administration. This division is responsible for the Individual Income Tax Processing Center and temporary staff associated with the income tax process.

AGENCY TECHNOLOGY GOALS AND OBJECTIVES

1. Promote compliance with the tax laws of North Dakota.
2. Instill the highest degree of public confidence in our integrity and reliability.
3. Provide prompt, accurate, and courteous service to the taxpayers.

The operating line for equipment < \$5,000 is higher this biennium because Tax Department is scheduled to replace the desktop PC and laptops. The desktop PC is on a four year replacement cycle and the laptops are on a three year replacement cycle. The expense of replacing the PC and laptop hardware was offset within the data processing line item and other areas throughout the Tax Department budget.

Number of Desktop Computers	158	Windows 98	0
Number of Desktop Computers planned to be replaced	120	Wndows NT	0
Aveage cost of Desktop Computer Replacements	880	Windows 2000	0
Number of Laptop Computers	21	Windows XP	100
Number of Laptop Computers Planned to be replaced	20	Other	0
Aveage cost of Laptop Computer Replacements	2000		

Number of PC's by Region

1	2	3	4	5	6	7	8	
1	4	0	2	7	1	163	1	

Agency Technology Activities

This activity covers the base operating costs for Tax Department applications, hardware, software, and other technology tools. Operating costs include ITD charges for telephone, tax system application maintenance, mainframe processing charges, disk storage charges, server hosting, PC operating and application software renewals and maintenance, desktop hardware replacements, and Tax Department IT Salaries. Funding of this activity ensures that Tax Department will continue to administer tax laws and collect revenue at current service levels. Tax Department collects about \$1.9 billion in revenue every biennium.

This revenue collection is supported through the use of technology enablers such as mainframe computer systems, personal computers, imaging and automated data capture, and desktop productivity tools such as Word, Excel, Access, and PowerPoint. Tax Department supports 34 tax types resulting in approximately 1.4 million returns and 800,000 checks per biennium.

IT Capture Infrastructure Budget Details - Agency Budget Request

Page 10 of 68

00127 OFFICE OF STATE TAX COMMISSIONER

Date: 11/29/2004

2005B0100127

Time: 3:56:02PM

		Current Appropriation	Budget Request	Optional Adjustments	Request Plus Optionals	Subsequent Biennium
10	SALARIES AND WAGES					
	SALARIES, WAGES & BENEFITS	\$498,521	\$516,346	\$0	\$516,346	\$562,800
	Total	\$498,521	\$516,346	\$0	\$516,346	\$562,800
30	OPERATING EXPENSES					
IT3002	IT-DATA PROCESSING	\$1,804,479	\$1,849,756	\$0	\$1,849,756	\$1,720,000
IT3003	IT TELEPHONE	\$133,545	\$159,600	\$0	\$159,600	\$160,000
IT3005	IT SOFTWARE/SUPPLIES	\$69,900	\$219,237	\$0	\$219,237	\$230,000
IT3008	IT CONTRACTUAL SVCS & REPAIRS	\$351,140	\$50,840	\$0	\$50,840	\$55,000
IT3038	IT EQUIPMENT UNDER \$5000	\$68,176	\$145,600	\$0	\$145,600	\$45,000
	Total	\$2,427,240	\$2,425,033	\$0	\$2,425,033	\$2,210,000
50	CAPITAL ASSETS					
TI5016	IT EQUIPMENT \$5000 & OVER	\$25,000	\$25,000	\$0	\$25,000	\$25,000
	Total	\$25,000	\$25,000	\$0	\$25,000	\$25,000
Funding Source						
MOTOR FUEL TAX GRANT			\$120,000	\$0	\$120,000	\$0
STATE GENERAL FUND			\$2,846,379	\$0	\$2,846,379	\$2,797,800
			\$2,966,379	\$0	\$2,966,379	\$2,797,800

IT Capture Project Details - Agency Budget Request

00127 OFFICE OF STATE TAX COMMISSIONER

Version 2005B0100127

Project: Integrated Tax System

Priority - 1

Application Replacement

Age of Current Application - 43

Project Description

The Integrated Tax System project will replace the existing legacy tax systems that were designed over 40 years ago and are rooted in old technology, with a modernized system designed to use newer, less costly technology. This replacement will improve compliance, assist in audit selection, provide non-filer discovery, and enhance collection functions so that the Office of State Tax Commissioner can be even more efficient in fairly and effectively administering the tax laws of North Dakota.

IT Capture Project Details - Agency Budget Request

Date: 11/30/2004

Time 7:40:42AM

00127 OFFICE OF STATE TAX COMMISSIONER

Version 2005B0100127

Project: Integrated Tax System

Taxpayers are increasing their demands for more functionality over the Internet while demanding that the information be safe and secure. Additionally, taxpayers - individuals and business owners alike - are demanding streamlined methods of dealing with the Tax Department in order to improve their own efficiencies. On the State side of the equation, we need to continue to improve compliance and collections and enhance our audit and fraud detection processes. An integrated tax system will offer solutions to both taxpayers and state government by providing streamlined centralized service to the taxpayer while improving our own internal processes. An integrated tax system will achieve:

- Enhanced customer service
- Expanded Internet capabilities
- Improved operations
- Higher levels of compliance
- Greater audit identification and tools
- Enhanced revenue collections

The integrated tax system will support taxpayer identification, registration, and return processing, as well as taxpayer and revenue accounting. Data regarding the taxpayer and tax data will be available regardless of tax type, eliminating the "silo" affect and allowing Tax Department staff to easily investigate relationships that exist among the taxpayers for discovery of tax non-compliance. For example, Sales Tax data could be cross-matched with Individual Income Tax data; Employer Withholding data could be cross-matched with W-2 information collected for Individual Income Tax and Corporation Income Tax data.

The goals of the Office of State Tax Commissioner are aligned with our Mission, Vision, and Guiding Principles:

- o Excellent customer service
 - o compliance is less burdensome for taxpayers,
 - o single taxpayer accounts provide for one-stop-shopping,
 - o providing accurate, reliable data quickly as required by the taxpayer
- o Wise and prudent use of all resources through effective and efficient operations
 - o Improved internal business processes (do more with less)
 - o Reduced IT operational costs
- o Increased Revenues
 - o Voluntary compliance
 - o Audit tools
 - o Improved collection tools
 - o Greater fraud detection

The Tax Department recommends the implementation of a COTS application where business processes are modified to match the software solution with as few changes as possible for the North Dakota implementation. The final integrated product will be designed for the business of government and will be rich with features and functions based on revenue solution experts' knowledge and prior work. The solution will provide:

- 1) Tax Revenue and Return Processing supporting taxpayer identification, registration, and return processing through multiple channels (web, phone, etc).
- 2) Collection processing that includes taxpayer history and multiple payment methods as well as risk management that models taxpayer behavior based on past history. This functionality supports the collectors' activities by focusing on the cases with the highest likelihood of collection. Risk Management tools allow collection staff to apply the three R's of tax administration - getting the right account to the right resource at the right time.
- 3) Audit and discovery support that enables comprehensive audit management tools and other case prioritization tools. The audit function will provide a warehouse

IT Capture Project Details - Agency Budget Request

Date: 11/30/2004

Time 7:40:42AM

00127 OFFICE OF STATE TAX COMMISSIONER

Version 2005B0100127

Project: Integrated Tax System

of data for known and potential taxpayers that will allow our auditors to select cases that provide more revenue. The discovery function will allow us to identify potential taxpayers who were previously unknown. This approach will also allow us to minimize intrusion on taxpayers who are most likely to be compliant.

- 4) Fraud detection tools that will quickly identify and flag suspect tax returns enabling us to avoid loss of revenue. Recovering refunds that have been incorrectly distributed based on fraudulent returns is often impossible. Our fraud detection tool would compare returns to external patterns that match potential known fraudulent activity allowing us to remove high-risk refunds from the normal tax processing cycle.

Description of Business Need or Problem Driving the Project

The current tax systems were developed in 1960 and converted (not redeveloped) to a different file system in the mid-eighties. They are not cost effective to operate or maintain. The "silo" design of the tax systems prevents meaningful collection, compliance, and discovery functions as much of the cross-check and discovery work is manual. Minor changes require programming staff and these become costly.

IT Capture Project Details - Agency Budget Request

Date: 11/30/2004

Time 7:40:42AM

00127 OFFICE OF STATE TAX COMMISSIONER

Version 2005B0100127

Project: Integrated Tax System

- Business Issues
 - o The current tax systems were constructed as silos of information pertinent to only that tax type. This makes sharing data with other tax systems difficult, requiring custom interfaces. Tax Department efficiencies are hampered and revenue dollars due the State may remain uncollected as taxpayer and tax data can not be automatically compared across the different tax types.
 - o By establishing a single Taxpayer Account across multiple tax types and the option of having a single view on the taxpayer's history in the collection process will enable increased voluntary compliance, reduce taxpayer burden, and improve performance in customer service.
 - o Tax systems, designed as silos, tend to enable the creation of business processes and rules that are also "siloed"; business processes that could be the same across the organization are not because they were developed by tax type rather than business process. An Integrated Tax System would lend itself towards unified business rules and processes thereby improving operational efficiencies and reducing the cost to collect revenue.
 - o In 1985, a group of legislators and legislative staff representing several states convened and created a report - *Principles of a High-Quality State Revenue System*. An integrated tax system will provide two of the principles (5 and 6) defined in this report.
 - A high-quality revenue system facilitates taxpayer compliance. It is easy to understand and minimizes compliance costs.
 - A high-quality revenue system promotes fair, efficient, and effective administration. It is as simple as possible to administer, raises revenue efficiently, is administered professionally, and is applied uniformly.
- Technology Operational Issues

The Enterprise Architecture ITD Systems Architect has presented a *Servers and Operating Systems Future State* to the State Information Technology Advisory Committee and the Interim IT Committee. In the report, there are compelling arguments for migrating away from the mainframe platform.

- o The current server and operating system infrastructure presents the state with challenges that must be addressed:
 - 1) Every major operating system currently available is part of the state infrastructure and supporting a wide variety of platforms requires a wide variety of skill sets and so implies a larger staff.
 - 2) The operation and maintenance of these systems requires staff with mainframe skill sets.
 - 3) As of 2002, some 60% of the people with these legacy skill sets were age 50 or older.
 - 4) People entering the IT field are not trained in these legacy skill sets.
 - 5) The server hardware is becoming a commodity item dominated by Intel compatible machines.
 - 6) The commoditization of server hardware is driving the operating system market towards Microsoft Windows and Linux.
 - 7) Business application(s) will need to be developed in a flexible manner, i.e.; the application must be hardware and operating software platform neutral so that it's operation is platform independent.
- o Continued support of these business critical legacy systems will require one of three approaches:
 - 1) Migrate these legacy systems to some other platform,
 - 2) Provide in house training to assure the availability of trained staff, or
 - 3) Outsource the support/maintenance of these systems.
- o State Government will be presented with three alternatives for systems that address core business needs such as the tax business systems:
 - 1) Deploy custom built software tailored to the specific business needs.
 - 2) Deploy Commercial-Off-The-Shelf (COTS) software and modify business processes to meet the software.
 - 3) Deploy COTS software that is customized to meet specific business needs.

IT Capture Project Details - Agency Budget Request

Date: 11/30/2004

Time 7:40:42AM

00127 OFFICE OF STATE TAX COMMISSIONER

Version 2005B0100127

Project: Integrated Tax System

Description of how Project is Consistent with the Organization's Mission

The mission of the Office of State Tax Commissioner is to fairly and effectively administer all taxes as defined in N.D.C.C. § 57 to meet the resource needs for the State of North Dakota.

Description of the Anticipated Benefits

An integrated tax system provides audit, collection, and compliance tools used with a single, consolidated view of a taxpayer's history. Customer service is enhanced with the ability to solve issues quickly, the first time. The consolidated view provides better information and tools for audit selection, collection, and compliance cross-check. The use of automated tools or manual processes is cost prohibitive with the current system.

The periodical **Governing** evaluated North Dakota's Tax system in 2003 and rated it as being only two stars out of four. The article goes on to relate that the state "had to delay a planned integrated tax information system because of budget cuts." The two-star rating is described as "The state could continue to function as it currently does into the foreseeable future. But there are clear elements to the tax system that would benefit from change." **Governing** described management of the system as the resources and capacity to optimize voluntary compliance, find and get taxes from those who do not voluntarily comply and do both with optimal efficiency for both the state and its taxpayers

Taxpayers - enhanced processing and data will result in shorter refund times, faster access to taxpayer information, streamlining the processing will provide additional efficiencies. Taxpayers typically don't mind paying their taxes but are united in their desire that everyone pay "their fair share" of taxes. The integrated tax system provides the foundation for the Tax Department to *fairly* and effectively administer the tax laws of the State of North Dakota.

Legislators - the integrated tax system will provide audit selection, discovery of non-filers and/or underreporters, and enhanced collections functionality thereby improving the potential for increased revenue to the State General Fund. Additionally, the integrated system will improve internal efficiencies and reporting capabilities and will create more flexibility for the Tax Department to successfully implement and manage Legislative tax law changes in a less costly and more efficient manner.

State of North Dakota - the integrated tax system as a Commercial-Off-the-Shelf (COTS) software implementation will modernize the tax processing system by streamlining business processes for government, private citizens, and business. The system will encapsulate the best practices of government revenue agencies while running on industry standard hardware and software. Citizens and Legislators can both expect lower operations costs, enhanced process workflow and productivity, and increased revenues through audit, discovery, and collections.

Description of the Impact of NOT Implementing the Project

The current 43 year-old systems will soon be even more problematic as mainframe support staff retires and equipment and software must be replaced. Costs will rise due to aging technology and critical government services will be interrupted. Tax Department is hampered in our efforts by the use of outdated legacy applications. We miss opportunities for improved customer service and increasing revenue with enhanced compliance, audit, discovery, and collections tools.

IT Capture Project Details - Agency Budget Request

Date: 11/30/2004

Time 7:40:42AM

00127 OFFICE OF STATE TAX COMMISSIONER

Version 2005B0100127

Project: Integrated Tax System

Identify any Risks Associated with the Project

Aggressive project schedule - A professional Project Manager will be retained and Tax Department will provide visible, solid, continuous management support with detailed planning and a strong commitment from tax department staff and management.

Change management and Business Process Reengineering - include staff involvement at all levels for input to the project team, detailed planning, and visible management support.

Description of Additional Cost, if Any, for the Project

N/A

Additional Costs for the project that are not included in IT Object Codes

Additional Costs - \$0.00

Optional Project Costs \$0.00

Total Project Cost - \$0.00**Total Project Cost + Optionals \$0.00****Description of Non-Appropriated Funds - \$0.00**

N/A

	<u>CURRENT</u>	<u>BUDGET</u>	<u>OPTIONAL</u>	<u>REQUEST PLUS</u>	<u>SUBSEQUENT</u>
	<u>APPROPRIATIONS</u>	<u>REQUEST</u>	<u>ADJUSTMENT</u>	<u>OPTIONALS</u>	<u>BIENNIUM</u>
IT1500 CURRENT DATA SALARIES	\$0	\$0	\$200,000	\$200,000	\$0
IT1600 CURRENT DATA BENEFITS	\$0	\$0	\$0	\$0	\$0
IT1700 CURRENT DATA TEMP/OT	\$0	\$0	\$75,000	\$75,000	\$0
IT3002 IT-DATA PROCESSING	\$0	\$0	\$1,300,000	\$1,300,000	\$0
IT3005 IT SOFTWARE/SUPPLIES	\$0	\$0	\$3,100,000	\$3,100,000	\$0
IT3008 IT CONTRACTUAL SVCS & REPAIRS	\$0	\$0	\$7,750,000	\$7,750,000	\$0
TI5016 IT EQUIPMENT \$5000 & OVER	\$0	\$0	\$200,000	\$200,000	\$0
Total	\$0	\$0	\$12,625,000	\$12,625,000	\$0
001 STATE GENERAL FUND		\$0	\$12,625,000	\$12,625,000	\$0
Total Funding:		\$0	\$12,625,000	\$12,625,000	\$0